

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Domestic Fixed Income Guidelines

Resolution 2020-06

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for each of the funds entrusted to it; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

WHEREAS, the Board has established an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

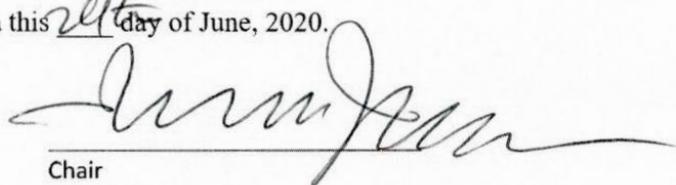
WHEREAS, the Board has authorized investment in fixed income securities; and

WHEREAS, the Board will establish and from time to time as necessary modify guidelines for fixed income securities.

NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the attached Domestic Fixed Income Guidelines, attached hereto and made a part hereof, regarding investment in domestic fixed income securities.

This resolution repeals and replaces Resolution 2019-06.

DATED at Juneau, Alaska this 21st day of June, 2020.


Chair

ATTEST:


Secretary

DOMESTIC FIXED INCOME GUIDELINES

- A. Purpose.** The emphasis of investments in fixed income securities shall be diversification, subject to defined constraints, to minimize risk, to generate income, and to provide liquidity as required.
- B. Investment Management Service to be Performed.** Domestic fixed income Contractors shall invest and reinvest the cash and securities allocated to them and deposited in their account, without distinction between principal and income, in a portfolio consisting of fixed income securities. These securities will be selected and retained by Contractors solely on the basis of their independent judgment relating to economic conditions, financial conditions, market timing, or market analysis, and will not be subject to direction from the ARMB.
- C. Performance Standards.** Contractors are expected to have returns, net of fees, in excess of the appropriate benchmark over rolling 6-year periods with an ex-ante tracking error, defined as the annualized standard deviation of returns relative to the index, of less than two percent. The benchmark is the Bloomberg Barclays Aggregate Index.
- D. Investment Structure.** Permissible U.S. dollar denominated debt investments shall be limited to the following:
1. Money market investments comprising:
 - a. Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by retirement funds will take custody of the collateral;
 - b. Commercial paper rated at least Prime-1 by Moody's Investor Services, Inc. and A-1 by Standard and Poor's Corporation;
 - c. Negotiable certificates of deposit, provided that an issuing bank must have total assets in excess of \$5 billion.
 2. United States Treasury obligations including bills, notes, bonds, other debt obligations issued by the United States Treasury, and backed by the full faith and credit of the U.S. Government.
 3. Other full faith and credit obligations of the U.S. Government.
 4. Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government.

5. Securities issued or guaranteed by municipalities in the United States.
6. Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars.
7. Investment grade corporate debt securities comprising:
 - a. Corporate debt issued in the U.S. capital markets by U.S. companies;
 - b. Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers);
 - c. Yankee debt (that is, U.S. dollar-denominated obligations and issued in the U.S. capital markets by foreign issuers).
8. Asset-backed Securities (ABS).
9. Agency and non-agency mortgage-backed securities backed by loans secured by residential, multifamily and commercial properties including, but not limited to pass-throughs, collateralized mortgage loans (CMO's), project loans, construction loans and adjustable rate mortgages.
10. High yield securities including the following securities and constraints:
 - a. Convertible bonds;
 - b. Preferred stock;
 - c. Warrants and common stock only if issued in conjunction with or related to bonds purchased by the manager;
 - d. Common stock received from the conversion of a convertible security, the exercise of a warrant or the restructuring of an issuer's debt should be sold within 90 days of receipt or within 90 days of expiration of a restructuring period. If more time is needed, the Chief Investment Officer must affirm in writing that it is in the Fund's best interest to allow more time.
11. Total return swaps referenced to components or sub-components of fixed income indices. To mitigate interest rate risk, the proceeds may not be invested in securities with a maturity beyond 90 days, unless invested in the Department of Revenue internally-managed Short-Term Fixed Income Pool.
12. The Alaska Department of Revenue's internally managed short-term or substantially similar portfolio.

E. Portfolio Constraints. The Contractor of the fixed-income portfolio shall apply appropriate diversification standards subject, however, to the following limitations based on the current market value of assets:

1. The portfolio's effective duration may not exceed a band of +/- 20% around the modified adjusted duration (or effective duration) of the Bloomberg Barclays Aggregate Index, unless the investment agreement with an external Contractor specifically allows for a different band.
2. Investments in fixed-income securities shall be placed solely in U.S. dollar denominated debt instruments.
3. The Contractor may not invest more than 40% of the portfolio's assets in investment grade corporate debt.
4. Up to 5% of the portfolio's assets at the time of purchase may be comprised of high yield securities. Other than for high yield securities, or for unrated United States Treasury obligations, securities issued or guaranteed by agencies and instrumentalities of the U.S Government, and agency mortgage-backed securities, securities must be rated investment grade. The rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Securities may contain only two of these ratings. In such instances, the rating is defined as the lower of the two ratings. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA at the time of purchase.
5. The Contractor may not invest more than the benchmark weight plus 5% of the portfolio's assets in debt rated below A-, or equivalent.
6. The Contractor may not invest more than 25% of the portfolio's assets in any one corporate sector as defined by the Bloomberg Barclays Aggregate Index.
7. The Contractor may not purchase more than 10% of the currently outstanding par value of any corporate bond issue.
8. The Contractor may not invest more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.
9. There shall be no investment in private placements, except Rule 144A securities.
10. The Contractor shall not sell securities short.
11. The Contractor shall not purchase securities on margin.
12. The Contractor shall not utilize options or futures.

13. Internally Managed Assets: the Contractor may only execute trades with dealers that have a minimum of \$200,000,000 in capital. This requirement does not apply to or restrict trades with direct issuers of commercial paper and mortgage-backed securities otherwise eligible for investment under these guidelines. The dealers must be able to execute orders promptly at the most favorable prices reasonably attainable.

14. Externally Managed Assets: Internal cross trading is permitted but only in accordance with requirements under: (1) 29 U.S.C. §1108(b)(19); (2) 29 C.F.R. §2550.408b-19; and (3) 26 U.S.C. §4975(d)(22).

F. Required Remedies. Recognizing that ratings and relative asset worth may change, the Contractor shall liquidate invested securities with care and prudence when the credit rating of a security falls below the minimum standards set in these guidelines or when the relative market value of that investment type exceeds the levels of holdings permitted in these guidelines. The Contractor is required to notify the chief investment officer to discuss the situation and the proposed liquidation strategy if it is not prudent simply to liquidate immediately.